

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VILLAGE OF LINCOLN	County ALCONA
Audit Date 03/31/2004	Opinion Date 08/11/2004	Date Accountant Report Submitted to State: 09/15/2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

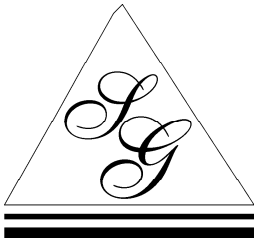
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ yes ☐ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature 		Digitally signed by Stephenson, Gracik and Co., P.C. DN: cn=Stephenson, Gracik and Co., P.C., c=US Date: 2004.08.12 09:28:29 -0500 Reason: I am approving this document	



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VILLAGE OF LINCOLN
ALCONA COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED MARCH 31, 2004

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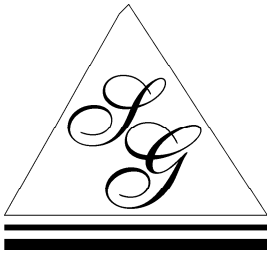
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August 11, 2004

Independent Auditors' Report

Members of the Village Council
Village of Lincoln
Alcona County, Michigan

We have audited the accompanying general purpose financial statements of the Village of Lincoln, Alcona County, Michigan, as of and for the year ended March 31, 2004, as listed in the index. These general purpose financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 2, the combined general purpose financial statements referred to above do not include the financial statements of the General Fixed Assets Group of Accounts, which should be included to conform with accounting principles generally accepted in the United States of America. The amount that should be recorded in the General Fixed Assets Group of Accounts is not known.

In our opinion, except for the effects on the general purpose financial statements of the omission described in the preceding paragraph, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Village of Lincoln, Alcona County, Michigan, as of March 31, 2004, and the results of its operations and its cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2004 on our consideration of the Village of Lincoln's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Stephenson, Gracik & Co., P.C.

VILLAGE OF LINCOLN
Alcona County, Michigan

COMBINED BALANCE SHEET -
ALL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT
March 31, 2004

	Governmental Fund Types		Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)	Component Unit	Totals (Memorandum Only)
	General	Special Revenue	Enterprise	Internal Service	Trust and Agency	Primary Government	Downtown Development Authority	Reporting Entity
<u>ASSETS</u>								
Cash (Note 3)	\$ 42,424	\$ 74,547	\$ 12,153	\$ 12,206	\$ 176	\$ 141,506	\$ 5,000	\$ 146,506
Investments (Note 3)	131,683	46,025	8,579	44,863	0	231,150	189,241	420,391
Receivables:								
Taxes (Note 4)	3,270	1,635	0	0	0	4,905	50,865	55,770
Assessments	0	0	13,875	0	0	13,875	0	13,875
Accounts	0	0	2,435	0	0	2,435	0	2,435
Due from other funds (Note 6)	82	30,000	0	0	0	30,082	0	30,082
Due from state	0	12,536	0	0	0	12,536	0	12,536
Property, plant and equipment (Note 7)	0	0	462,508	116,805	0	579,313	413,845	993,158
Accumulated depreciation (Note 7)	0	0	(179,388)	(101,087)	0	(280,475)	0	(280,475)
Total Assets	<u>\$ 177,459</u>	<u>\$ 164,743</u>	<u>\$ 320,162</u>	<u>\$ 72,787</u>	<u>\$ 176</u>	<u>\$ 735,327</u>	<u>\$ 658,951</u>	<u>\$ 1,394,278</u>
<u>LIABILITIES AND FUND EQUITY</u>								
<u>Liabilities</u>								
Due to other funds (Note 6)	\$ 0	\$ 0	\$ 30,000	\$ 0	\$ 82	\$ 30,082	\$ 0	\$ 30,082
Other liabilities	0	0	0	0	94	94	0	94
Total liabilities	<u>0</u>	<u>0</u>	<u>30,000</u>	<u>0</u>	<u>176</u>	<u>30,176</u>	<u>0</u>	<u>30,176</u>
<u>Fund Equity (Deficit)</u>								
Contributed capital - net	0	0	294,084	0	0	294,084	0	294,084
Investment in general fixed assets	0	0	0	0	0	0	413,845	413,845
Retained Earnings (Deficit)	0	0	(3,922)	72,787	0	68,865	0	68,865
Fund Balances:								
Unreserved:								
Designated for fire	74,882	0	0	0	0	74,882	0	74,882
Undesignated	102,577	164,743	0	0	0	267,320	245,106	512,426
Total fund equity	<u>177,459</u>	<u>164,743</u>	<u>290,162</u>	<u>72,787</u>	<u>0</u>	<u>705,151</u>	<u>658,951</u>	<u>1,364,102</u>
Total Liabilities and Fund Equity	<u>\$ 177,459</u>	<u>\$ 164,743</u>	<u>\$ 320,162</u>	<u>\$ 72,787</u>	<u>\$ 176</u>	<u>\$ 735,327</u>	<u>\$ 658,951</u>	<u>\$ 1,394,278</u>

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF LINCOLN
Alcona County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCES - ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT
For the Year Ended March 31, 2004

	Governmental Fund Types		Totals (Memorandum Only)	Component Unit	Totals (Memorandum Only)
	General	Special Revenue	Primary Government	Downtown Development Authority	Reporting Entity
<u>Revenue</u>					
Taxes	\$ 40,602	\$ 19,296	\$ 59,898	\$ 110,620	\$ 170,518
Licenses and permits	120	0	120	0	120
State revenue	29,458	60,211	89,669	0	89,669
Charges for services	31,349	0	31,349	0	31,349
Interest	1,099	328	1,427	1,744	3,171
Other revenue	1,650	269	1,919	0	1,919
Total revenue	<u>104,278</u>	<u>80,104</u>	<u>184,382</u>	<u>112,364</u>	<u>296,746</u>
<u>Expenditures</u>					
Current:					
General government	41,319	0	41,319	0	41,319
Public safety	24,463	0	24,463	0	24,463
Public works	13,336	37,686	51,022	0	51,022
Recreation and cultural	11,612	0	11,612	0	11,612
Other	0	0	0	61,171	61,171
Capital outlay	3,408	0	3,408	21,170	24,578
Total expenditures	<u>94,138</u>	<u>37,686</u>	<u>131,824</u>	<u>82,341</u>	<u>214,165</u>
Excess of revenue over expenditures	<u>10,140</u>	<u>42,418</u>	<u>52,558</u>	<u>30,023</u>	<u>82,581</u>
<u>Other Financing Sources (Uses)</u>					
Sale of fixed assets	2,400	0	2,400	0	2,400
Operating transfers in	0	2,130	2,130	0	2,130
Operating transfers from component unit	20,000	0	20,000	0	20,000
Operating transfers out	(6,283)	0	(6,283)	0	(6,283)
Operating transfer to primary government	0	0	0	(20,000)	(20,000)
Total other financing sources (uses)	<u>16,117</u>	<u>2,130</u>	<u>18,247</u>	<u>(20,000)</u>	<u>(1,753)</u>
Excess of revenue and other sources over expenditures and other uses	<u>26,257</u>	<u>44,548</u>	<u>70,805</u>	<u>10,023</u>	<u>80,828</u>
Fund balances - beginning of year	<u>151,202</u>	<u>120,195</u>	<u>271,397</u>	<u>235,083</u>	<u>506,480</u>
Fund balances - end of year	<u>\$ 177,459</u>	<u>\$ 164,743</u>	<u>\$ 342,202</u>	<u>\$ 245,106</u>	<u>\$ 587,308</u>

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF LINCOLN
Alcona County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS
For the Year Ended March 31, 2004

	General			Special Revenue			Totals (Memorandum Only)		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>									
Taxes	\$ 31,000	\$ 40,602	\$ 9,602	\$ 12,000	\$ 19,296	\$ 7,296	\$ 43,000	\$ 59,898	\$ 16,898
Licenses and permits	120	120	0	0	0	0	120	120	0
State revenue	28,897	29,458	561	43,900	60,211	16,311	72,797	89,669	16,872
Charges for services	19,899	31,349	11,450	0	0	0	19,899	31,349	11,450
Interest	803	1,099	296	0	328	328	803	1,427	624
Other revenue	0	1,650	1,650	0	269	269	0	1,919	1,919
Total revenue	<u>80,719</u>	<u>104,278</u>	<u>23,559</u>	<u>55,900</u>	<u>80,104</u>	<u>24,204</u>	<u>136,619</u>	<u>184,382</u>	<u>47,763</u>
<u>Expenditures</u>									
Current:									
General government	43,966	41,319	2,647	0	0	0	43,966	41,319	2,647
Public safety	25,342	24,463	879	0	0	0	25,342	24,463	879
Public works	13,963	13,336	627	55,900	37,686	18,214	69,863	51,022	18,841
Recreation and cultural	10,443	11,612	(1,169)	0	0	0	10,443	11,612	(1,169)
Capital outlay	3,408	3,408	0	0	0	0	3,408	3,408	0
Total expenditures	<u>97,122</u>	<u>94,138</u>	<u>2,984</u>	<u>55,900</u>	<u>37,686</u>	<u>18,214</u>	<u>153,022</u>	<u>131,824</u>	<u>21,198</u>
Excess of revenue over (under) expenditures	<u>(16,403)</u>	<u>10,140</u>	<u>26,543</u>	<u>0</u>	<u>42,418</u>	<u>42,418</u>	<u>(16,403)</u>	<u>52,558</u>	<u>68,961</u>
<u>Other Financing Sources (Uses)</u>									
Sale of fixed assets	0	2,400	2,400	0	0	0	0	2,400	2,400
Operating transfers in	0	0	0	0	2,130	2,130	0	2,130	2,130
Operating transfers from component unit	20,000	20,000	0	0	0	0	20,000	20,000	0
Operating transfers out	(2,135)	(6,283)	(4,148)	0	0	0	(2,135)	(6,283)	(4,148)
Total other financing sources (uses)	<u>17,865</u>	<u>16,117</u>	<u>(1,748)</u>	<u>0</u>	<u>2,130</u>	<u>2,130</u>	<u>17,865</u>	<u>18,247</u>	<u>382</u>
Excess of revenue and other sources over expenditures and other uses	<u>1,462</u>	<u>26,257</u>	<u>24,795</u>	<u>0</u>	<u>44,548</u>	<u>44,548</u>	<u>1,462</u>	<u>70,805</u>	<u>69,343</u>
Fund balances - beginning of year	<u>151,202</u>	<u>151,202</u>	<u>0</u>	<u>120,195</u>	<u>120,195</u>	<u>0</u>	<u>271,397</u>	<u>271,397</u>	<u>0</u>
Fund balances - end of year	<u>\$ 152,664</u>	<u>\$ 177,459</u>	<u>\$ 24,795</u>	<u>\$ 120,195</u>	<u>\$ 164,743</u>	<u>\$ 44,548</u>	<u>\$ 272,859</u>	<u>\$ 342,202</u>	<u>\$ 69,343</u>

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF LINCOLN
Alcona County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN
 RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES
For the Year Ended March 31, 2004

	Proprietary Fund Types		
	Enterprise	Internal Service	
	Sewer Fund	Equipment Rental Fund	Totals (Memorandum Only)
<u>Operating Revenue</u>			
Charges for services	\$ 8,526	\$ 19,415	\$ 27,941
Other	676	0	676
Total operating revenue	<u>9,202</u>	<u>19,415</u>	<u>28,617</u>
<u>Operating Expenses</u>			
Wages and benefits	1,560	1,638	3,198
Gasoline and oil	0	2,521	2,521
Insurance	400	2,476	2,876
Maintenance and repair	3,271	5,243	8,514
Depreciation	11,556	5,204	16,760
Payroll taxes	119	125	244
Equipment rental	464	0	464
Utilities	162	0	162
Professional fees	1,777	0	1,777
Miscellaneous	2,529	299	2,828
Total operating expenses	<u>21,838</u>	<u>17,506</u>	<u>39,344</u>
Operating income (loss)	<u>(12,636)</u>	<u>1,909</u>	<u>(10,727)</u>
<u>Non-Operating Revenue (Expenses)</u>			
Interest income on investments	201	178	379
Interest income on special assessments	1,358	0	1,358
Loss on sale of equipment	0	(467)	(467)
Total non-operating revenue (expenses)	<u>1,559</u>	<u>(289)</u>	<u>1,270</u>
Income (loss) before operating transfers	(11,077)	1,620	(9,457)
<u>Other Financing Sources</u>			
Operating transfers in	<u>4,153</u>	<u>0</u>	<u>4,153</u>
Net income (loss)	(6,924)	1,620	(5,304)
Amortization of contributed capital	7,155	0	7,155
Retained earnings (deficit) - beginning of year	<u>(4,153)</u>	<u>71,167</u>	<u>67,014</u>
Retained earnings (deficit) - end of year	<u>\$ (3,922)</u>	<u>\$ 72,787</u>	<u>\$ 68,865</u>

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF LINCOLN
Alcona County, Michigan

COMBINED STATEMENT OF CASH FLOWS -
ALL PROPRIETARY FUND TYPES
For the Year Ended March 31, 2004

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise	Internal Service	
	Sewer Fund	Equipment Rental Fund	
<u>Cash Flows From Operating Activities</u>			
Cash received from customers	\$ 11,094	\$ 19,415	\$ 30,509
Cash paid to suppliers and employees	(10,292)	(12,302)	(22,594)
Net cash provided by operating activities (Note 12)	802	7,113	7,915
<u>Cash Flows From Noncapital Financing Activities</u>			
Net cash paid to other funds	(5,847)	0	(5,847)
<u>Cash Flows From Capital and Related Financing Activities</u>			
Proceeds from sale of equipment	0	800	800
Cash purchase of equipment	0	(350)	(350)
Interest received on assessments	1,358	0	1,358
Principal received on assessments	9,968	0	9,968
Net cash provided by capital and related financing activities	11,326	450	11,776
<u>Cash Flows From Investing Activities</u>			
Interest earned on deposits	201	178	379
Net increase in cash and cash equivalents	6,482	7,741	14,223
Cash and cash equivalents at beginning of year	14,250	49,328	63,578
Cash and cash equivalents at end of year	\$ 20,732	\$ 57,069	\$ 77,801

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF LINCOLN
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Village of Lincoln operates under an elected council of nine members and provides services to its residents in many areas including law enforcement, fire protection and street maintenance.

The financial statements of the Village of Lincoln have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Village's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary Funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity. On this basis, the financial statements of certain other governmental organizations listed below are not included in the financial statements of the Village.

Education services are provided to citizens through the local school district which is a separate governmental entity.

Discretely Presented Component Unit – The component unit column in the combined financial statements represents the financial data of the Downtown Development Authority. The Authority is reported in a separate column to emphasize that it is legally separate from the Village. The governing body of this component unit is appointed by the Village Council. The Downtown Development Authority was established to correct and prevent urban deterioration and encourage economic development, neighborhood and historic preservation of the Village of Lincoln. The Downtown Development Authority uses an April 30, 2003 year end, which is what is presented in these financial statements. Complete financial statements can be obtained from the Village Clerk's office.

B. Basis of Presentation

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

Governmental Funds:

General Fund - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenue.

Special Revenue Funds - These funds are used to account for specific governmental revenues (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

VILLAGE OF LINCOLN
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

Proprietary Funds:

Internal Service Fund - This fund is used to record the financing of goods or services provided by the local unit to other departments and funds or to other governmental units on a cost reimbursement basis.

Enterprise Fund - This fund reports operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

Fiduciary Funds:

These funds, used to account for assets held in trust or as an agent for others, include the Payroll Fund, Agency Fund and Recreation Playground Project Fund.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Township, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the Township receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Township must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

The accrual basis of accounting is used by the Proprietary Funds. The financial activity of the Agency Funds is limited to collection of amounts which are subsequently returned or paid to third parties and, accordingly, are limited to cash transactions. All governmental funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

1. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

VILLAGE OF LINCOLN
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls.

Primary Government

For the current year, the taxable value for properties located within the Village was \$14,643,455. The tax rates were 4.98 mills for operations and 2.49 mills for streets.

Component Unit

For the current year, the captured taxable value for properties located within the Downtown Development Authority was \$6,782,026. The tax rates were 7.5000 total mills from the Village of Lincoln, 6.1230 total mills from Alcona County and 2.6878 total mills from Gustin Township.

2. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
3. Normally, expenditures are not divided between years by the recording of prepaid expenses.

D. Assets, Liabilities and Fund Equity

Inventories:

Inventories are not recognized, whereby materials and supplies are expensed as purchased.

Interfund Receivables - Payables:

Interfund receivables and payables have not been eliminated in the preparation of the Combined Balance Sheet (EXHIBIT A).

Interfund Transfers:

Operating transfers in and out have not been offset in the presentation of the Combined Statements of Revenue and Expenditures (EXHIBITS B and C).

Fixed Assets and Depreciation:

Proprietary Funds - Property, plant and equipment is stated at cost. Depreciation has been provided using the straight line method over the estimated useful life of the assets.

General Fixed Assets - General fixed assets are recorded as expenditures at the time of purchase, except for the Proprietary Funds.

Contributed Capital - Contributed capital in the proprietary funds consists of federal grants and contributions from customers (special assessments) utilized in the construction of fixed assets. Contributed capital is being amortized, except for the portion received from customers.

VILLAGE OF LINCOLN
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenue, Expenditures and Expenses

1. Property tax revenue is recognized when it becomes available. Available means when due, or past due and receivable within the current period and collected within the current period.
2. Revenue from the sale of Village services and assessments is recorded when earned. All other revenue is recognized when collected in cash.
3. Payrolls and other costs are recognized as incurred.

F. Statement of Cash Flows

For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly upon settlement, actual results may differ from estimated amounts.

H. Budgets and Budgetary Accounting

The Village normally follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Village Clerk submits a proposed operating budget to the Village Council which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted through passage of an ordinance.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted or as amended by the Village Council.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Village Council.

NOTE 2 - FUND OMITTED

The Village of Lincoln does not maintain records for the General Fixed Assets. Therefore, this fund has not been included in the financial statements.

VILLAGE OF LINCOLN
Alcona County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004NOTE 3 - DEPOSITS AND INVESTMENTS

The captions on the financial statements for the deposit and investment accounts are as follows:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
<u>Primary Government</u>			
Cash	\$ 141,506	\$ 0	\$ 141,506
Investments	<u>0</u>	<u>231,150</u>	<u>231,150</u>
Total primary government	<u>141,506</u>	<u>231,150</u>	<u>372,656</u>
<u>Component Unit</u>			
Cash	5,000	0	5,000
Investments	<u>0</u>	<u>189,241</u>	<u>189,241</u>
Total component unit	<u>5,000</u>	<u>189,241</u>	<u>194,241</u>
Total reporting entity	<u>\$ 146,506</u>	<u>\$ 420,391</u>	<u>\$ 566,897</u>

Deposits:

Deposits are carried at cost. Deposits of the Village of Lincoln and its component unit are held at Huron Community Bank in the name of the Village. At year end the carrying amounts of the Village's and its component unit's deposits were classified as to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
<u>Primary Government</u>		
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured – uncollateralized	<u>41,506</u>	<u>97,077</u>
Total primary government	<u>141,506</u>	<u>197,077</u>
<u>Component Unit</u>		
Insured (FDIC)	<u>5,000</u>	<u>5,000</u>
Total deposits reporting entity	<u>\$ 146,506</u>	<u>\$ 202,077</u>

Investments:

The Village Council has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Village to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which matures not more than 270 days after the date of purchase

VILLAGE OF LINCOLN
Alcona County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments: (Continued)

- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Village's deposits and investments are in accordance with statutory authority.

The Village's investments are categorized to give an indication of the level of risk assumed by the Village at March 31, 2004. The categories are described as follows:

Category 1 - Insured or registered, with securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

All investments at March 31, 2004 consisted of the following which are not required to be categorized:

	<u>Carrying Amount</u>	<u>Market Value</u>
<u>Nonrisk-Categorized</u>		
Financial institution pooled funds:		
Primary government	\$ 231,150	\$ 231,150
Component unit	<u>189,241</u>	<u>189,241</u>
Total reporting entity	<u>\$ 420,391</u>	<u>\$ 420,391</u>

NOTE 4 - PROPERTY TAXES RECEIVABLE

The delinquent real property taxes of the Village of Lincoln are purchased by the County of Alcona. The County intends to sell tax notes, the proceeds of which will be used to pay the Village for these property taxes. These taxes have been recorded as revenue for the current year.

NOTE 5 - UNEMPLOYMENT COMPENSATION

The Village is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Village must reimburse the Employment Agency for all benefits charged against the Village. No liabilities were due as of March 31, 2004.

VILLAGE OF LINCOLN
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables for the primary government as of March 31, 2004 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 82	Trust and Agency	\$ 82
Village Raised Street Fund	<u>30,000</u>	Sewer Fund	<u>30,000</u>
	<u>\$ 30,082</u>		<u>\$ 30,082</u>

NOTE 7 - PROPRIETARY FUNDS - FIXED ASSETS

A summary of proprietary fund type fixed assets as of March 31, 2004 follows:

	<u>Enterprise</u>	<u>Internal Service</u>	
	<u>Sewer Fund</u>	<u>Equipment Rental Fund</u>	<u>Total</u>
Machinery and equipment	\$ 462,508	\$ 116,805	\$ 579,313
Less accumulated depreciation	<u>(179,388)</u>	<u>(101,087)</u>	<u>(280,475)</u>
Net fixed assets	<u>\$ 283,120</u>	<u>\$ 15,718</u>	<u>\$ 298,838</u>

Machinery and equipment are depreciated on a straight-line basis over their various estimated useful lives.

The following is a summary of changes in the General Fixed Assets of the Downtown Development Authority – a Governmental Fund Type Component Unit:

	<u>Balance 05/01/02</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 04/30/03</u>
<u>Property, Plant and Equipment</u>				
Land	\$ 179,399	\$ 14,250	\$ 0	\$ 193,649
Buildings	57,264	0	0	57,264
Equipment	<u>156,012</u>	<u>6,920</u>	<u>0</u>	<u>162,932</u>
	<u>\$ 392,675</u>	<u>\$ 21,170</u>	<u>\$ 0</u>	<u>\$ 413,845</u>

NOTE 8 - RETAINED EARNINGS (DEFICIT)

A deficit unreserved retained earnings of \$3,922 existed at March 31, 2004 in the Sewer Fund.

VILLAGE OF LINCOLN
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 9 - COMPENSATED ABSENCES

The Village of Lincoln had no liability for compensated absences at March 31, 2004.

NOTE 10 - SEGMENT INFORMATION OF ENTERPRISE FUND

The Village operates one Enterprise Fund which provides sewer services. Segment information for the year ended March 31, 2004 is as follows:

Operating revenue	\$ 9,202
Depreciation expense	\$ 11,556
Operating loss	\$ (12,636)
Net working capital	\$ 23,167
Total equity	\$ 290,162

NOTE 11 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, section 18(1), as amended, provided that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted to the functional level.

During the year ended March 31, 2004 the Village incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriation</u>	<u>Amount of Expenditure</u>	<u>Budget Variance</u>
General Fund:			
Recreation and cultural	\$ 10,443	\$ 11,612	\$ 1,169
Operating transfers out	\$ 2,135	\$ 6,283	\$ 4,148

VILLAGE OF LINCOLN
Alcona County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004NOTE 12 - RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	<u>Proprietary Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	
	<u>Sewer Fund</u>	<u>Equipment Rental Fund</u>	
Operating income (loss)	\$ (12,636)	\$ 1,909	\$ (10,727)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	11,556	5,204	16,760
Changes in assets and liabilities:			
Decrease in accounts receivable	1,892	0	1,892
Decrease in accounts payable	<u>(10)</u>	<u>0</u>	<u>(10)</u>
Net cash provided by operating activities	<u>\$ 802</u>	<u>\$ 7,113</u>	<u>\$ 7,915</u>

NOTE 13 - OPERATING TRANSFERS

Operating transfers in/out to other funds consist of the following:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Fund</u>	<u>Operating Transfers Out</u>
Major Street Fund	\$ 1,388	General Fund	\$ 1,388
Local Street Fund	742	General Fund	742
Sewer Fund	<u>4,153</u>	General Fund	<u>4,153</u>
	<u>\$ 6,283</u>		<u>\$ 6,283</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget allows to expend them.

NOTE 14 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Village continues to carry commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 15 - TOTAL COLUMN ON COMBINED STATEMENTS

The total column on the Combined Statements is captioned Memorandum Only to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

VILLAGE OF LINCOLN
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 16 - NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The Village is required to implement this standard for the fiscal year ending March 31, 2005. The Village has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.

OTHER DATA

REPORT ON OTHER DATA

August 11, 2004

Our audit was conducted for the purpose of forming an opinion on the March 31, 2004 general purpose financial statements taken as a whole. The other data, EXHIBITS G through L, as of and for the year ended March 31, 2004, is presented for purposes of additional analysis and is not a required part of the 2004 general purpose financial statements of the Village of Lincoln, Alcona County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the 2004 general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2004 general purpose financial statements taken as a whole.

Stephenson, Grainh & Co., P.C.

VILLAGE OF LINCOLN
Alcona County, Michigan

GENERAL FUND
 STATEMENT OF REVENUE - BUDGET AND ACTUAL
For the Year Ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>
<u>Taxes</u>		
Current property taxes	\$ 31,000	\$ 40,602
Licenses and Permits	120	120
State revenue sharing	28,897	29,458
<u>Charges for Services</u>		
Administration	4,399	4,349
Fire protection	15,500	27,000
	19,899	31,349
Interest earned	803	1,099
<u>Other Revenue</u>		
Miscellaneous	0	1,650
Total Revenue	80,719	104,278
<u>Other Financing Sources</u>		
Sale of fixed assets	0	2,400
Operating transfers from component unit	20,000	20,000
	20,000	22,400
Total Revenue and Other Financing Sources	\$ 100,719	\$ 126,678

VILLAGE OF LINCOLN
Alcona County, Michigan

GENERAL FUND
 STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
For the Year Ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>
<u>General Government</u>		
Village council	\$ 19,900	\$ 18,444
Village president	3,553	3,552
Clerk	8,489	7,880
Treasurer	7,024	6,884
Municipal building	5,000	4,559
	<u>43,966</u>	<u>41,319</u>
 <u>Public Safety</u>		
Fire department	<u>25,342</u>	<u>24,463</u>
 <u>Public Works</u>		
Department of public works	6,557	6,550
Street lighting	7,406	6,786
	<u>13,963</u>	<u>13,336</u>
 <u>Recreation and Cultural</u>		
Parks and recreation	<u>10,443</u>	<u>11,612</u>
 <u>Capital Outlay</u>		
Fire department	<u>3,408</u>	<u>3,408</u>
 Total Expenditures	97,122	94,138
 <u>Other Financing Uses</u>		
Operating transfers out	<u>2,135</u>	<u>6,283</u>
Total Expenditures and Other Financing Uses	\$ <u>99,257</u>	\$ <u>100,421</u>

VILLAGE OF LINCOLN
Alcona County, Michigan

ALL SPECIAL REVENUE FUNDS
 COMBINING BALANCE SHEET
March 31, 2004

	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Village Raised Street Fund</u>	<u>Totals</u>
<u>ASSETS</u>				
Cash	\$ 35,010	\$ 9,696	\$ 29,841	\$ 74,547
Investments	12,361	7,608	26,056	46,025
Receivables:				
Taxes	0	0	1,635	1,635
Due from other funds	0	0	30,000	30,000
Due from state	<u>9,657</u>	<u>2,879</u>	<u>0</u>	<u>12,536</u>
Total Assets	\$ <u><u>57,028</u></u>	\$ <u><u>20,183</u></u>	\$ <u><u>87,532</u></u>	\$ <u><u>164,743</u></u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities	\$ 0	\$ 0	\$ 0	\$ 0
<u>Fund Equity</u>				
Fund Balances:				
Unreserved:				
Undesignated	<u>57,028</u>	<u>20,183</u>	<u>87,532</u>	<u>164,743</u>
Total Liabilities and Fund Equity	\$ <u><u>57,028</u></u>	\$ <u><u>20,183</u></u>	\$ <u><u>87,532</u></u>	\$ <u><u>164,743</u></u>

VILLAGE OF LINCOLN
Alcona County, Michigan

ALL SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUE, EXPENDITURES
 AND CHANGES IN FUND BALANCES
For the Year Ended March 31, 2004

	Major Street Fund	Local Street Fund	Village Raised Street Fund	Totals
<u>Revenue</u>				
Taxes	\$ 0	\$ 0	\$ 19,296	\$ 19,296
State revenue	45,740	14,471	0	60,211
Interest	165	54	109	328
Other revenue	269	0	0	269
Total revenue	<u>46,174</u>	<u>14,525</u>	<u>19,405</u>	<u>80,104</u>
<u>Expenditures</u>				
Current:				
Public works	<u>29,442</u>	<u>8,244</u>	<u>0</u>	<u>37,686</u>
Excess of revenue over expenditures	16,732	6,281	19,405	42,418
<u>Other Financing Sources</u>				
Operating transfers in	<u>1,388</u>	<u>742</u>	<u>0</u>	<u>2,130</u>
Excess of revenue and other sources over expenditures	18,120	7,023	19,405	44,548
Fund balances - beginning of year	<u>38,908</u>	<u>13,160</u>	<u>68,127</u>	<u>120,195</u>
Fund balances - end of year	<u>\$ 57,028</u>	<u>\$ 20,183</u>	<u>\$ 87,532</u>	<u>\$ 164,743</u>

VILLAGE OF LINCOLN
Alcona County, Michigan

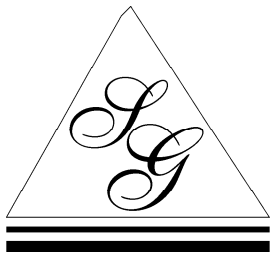
FIDUCIARY FUND TYPES - TRUST AND AGENCY
 COMBINING BALANCE SHEET
March 31, 2004

	<u>Trust and Agency Fund</u>	<u>Payroll Fund</u>	<u>Recreation Playground Project Fund</u>	<u>Totals</u>
<u>ASSETS</u>				
Cash	\$ <u>82</u>	\$ <u>74</u>	\$ <u>20</u>	\$ <u>176</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accrued liabilities	\$ 0	\$ 74	\$ 0	\$ 74
Due to other funds	82	0	0	82
Other liabilities	<u>0</u>	<u>0</u>	<u>20</u>	<u>20</u>
	82	74	20	176
Fund Equity	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities and Fund Equity	\$ <u>82</u>	\$ <u>74</u>	\$ <u>20</u>	\$ <u>176</u>

VILLAGE OF LINCOLN
Alcona County, Michigan

FIDUCIARY FUND TYPES - TRUST AND AGENCY
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Year Ended March 31, 2004

	Balance April 1, 2003		Additions		Deletions		Balance March 31, 2004
<u>Trust and Agency Fund</u>							
Cash	\$ 78	\$	13,283	\$	13,279	\$	82
Due to other units and funds	(78)		13,279		13,283		(82)
	<u>\$ 0</u>	\$	<u>26,562</u>	\$	<u>26,562</u>	\$	<u>0</u>
 <u>Payroll Fund</u>							
Cash	\$ 76	\$	54,695	\$	54,697	\$	74
Accrued liabilities	(76)		54,697		54,695		(74)
	<u>\$ 0</u>	\$	<u>109,392</u>	\$	<u>109,392</u>	\$	<u>0</u>
 <u>Recreation Playground Project Fund</u>							
Cash	\$ 1,793	\$	524	\$	2,297	\$	20
Other liabilities	(1,793)		2,297		524		(20)
	<u>\$ 0</u>	\$	<u>2,821</u>	\$	<u>2,821</u>	\$	<u>0</u>



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

August 11, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Village Council
Village of Lincoln
Alcona County, Michigan

We have audited the general purpose financial statements of the Village of Lincoln as of and for the year ended March 31, 2004, and have issued our report thereon dated August 11, 2004. In our report dated August 11, 2004, our opinion was qualified because the general purpose financial statements do not include the general fixed assets group of accounts. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Lincoln's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Village of Lincoln in a separate letter dated August 11, 2004.

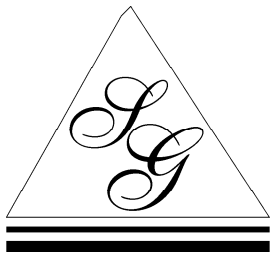
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Lincoln's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Village of Lincoln in a separate letter dated August 11, 2004.

This report is intended solely for the information and use of management, the Village Council and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.

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Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Kyle E Troyer, CPA

Herman A Bertuleit, CPA

August 11, 2004

Members of the Village Council
Village of Lincoln
Alcona County, Michigan

Dear Council Members:

We have audited the general purpose financial statements of the Village of Lincoln for the year ended March 31, 2004, and have issued our report thereon dated August 11, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated April 23, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the Village of Lincoln's internal control. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the Village of Lincoln's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Lincoln are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Village of Lincoln during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village of Lincoln's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Village of Lincoln, either individually or in the aggregate, indicate matters that could have a significant effect on the Village of Lincoln's financial reporting process.

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Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of Lincoln's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our study and evaluation of the internal controls as described in the third paragraph, certain matters came to our attention upon which we would like to comment and offer the following recommendations.

Budget Control

The Village's General Fund included expenditures that exceeded appropriated amounts. We recommend that the Village Council continue to review the budget periodically and make amendments when necessary as a matter of good fiscal policy in accordance with the Uniform Budgeting and Accounting Act.

General Fixed Assets

The Village of Lincoln does not maintain records for the General Fixed Asset Group of Accounts. We recommend the Council begin planning to implement these records as soon as practicable.

Deficit Retained Earnings

The Village's Sewer Fund has a deficit retained earnings at March 31, 2004. A deficit elimination plan needs to be filed with the Michigan Department of Treasury as soon as possible.

GASB 34 Implementation

New Financial Accounting Standards Affecting Governments

The format for governmental financial statements has been revised by the Governmental Accounting Standards Board (GASB), the organization responsible for promulgating accounting standards which governments must follow. The Statement, GASB Statement 34, requires these changes be implemented by all governmental units over the next several years. Significant changes from the current presentation include:

1. The addition of a transmittal letter describing management's analysis of the financial statements and current financial condition of the governmental unit.

2. The presentation of "Government Wide Financial Statements" on a full accrual accounting basis as opposed to the current "modified accrual basis".
3. The inclusion of "Individual and Combining Fund Financial Statements" presented on their existing basis of accounting including a reconciliation with the Government Wide Financial Statements.
4. The reporting of governmental activity expenditures net of "program revenues" to determine activity costs funded by public dollars (i.e. taxes, interest, etc.).
5. The requirement to report the value of infrastructure assets (i.e. road, bridges, etc.) as assets on the balance sheet of the governmental unit.
6. The requirement to report depreciation on all fixed assets, including infrastructure assets and general fixed assets.
7. The requirement to report both the original adopted budget and the final budget in the Budget to Actual comparative operating financial statement.

If adopted, the Village of Lincoln will need to implement these changes by the year ended March 31, 2005.

Alternative Option Available

Currently, the State of Michigan Department of Treasury has passed a policy to allow the following departures from the above standards without sanctions against the unit of government.

- Omission of Management's Discussion and Analysis
- Omission of Government Wide Financial Statements
- Omission of Infrastructure Asset Reporting

If units of government elect to omit the above listed items, a "qualified" independent auditors' opinion will be issued by the CPA firm on the financial statements. The effect of the qualification is expected to be minimal.

The new reporting standards have wide-sweeping implications in terms of identifying and accumulating information to comply with the standard. We would be happy to discuss with you the options available to the Village of Lincoln to assist in their implementation.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Village.

This information is intended solely for the use of management, Village Council and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grailh & Co., P.C.